A New Ethos: how the drive for cost reduction led to an impressive range of sustainability benefits.

This case study provides a fascinating insight into how the drive for cost reduction, supported by collaborative innovation can yield unintended, but highly desirable sustainability benefits in an SME environment.

Apollo Motor Group’s search for cost reduction drove them to innovate and look at resources and waste in a completely different way. The results are impressive: costs were reduced by 8%, carbon footprint and energy bills improved by 34% and wasted parts reduced by 42%, while concurrently they saved 30 jobs and up-skill the entire workforce.

It is also useful to note that the investment required was not particularly demanding; costs were fairly modest, payment delayed until benefits were realised and payback was secured in less than one month.

Apollo, Aviva and Eco Repair Systems should be commended for how they worked together to go beyond what they thought was possible. Ultimately this is a success story where Apollo has turned around a ‘business critical’ situation through applying a ‘new ethos’ in its operations, with less money spent on waste and more on people.

✓ Real impact with tangible benefits
✓ Sustainability principles integrated
✓ Supply chain innovation
✓ People enabling change
✓ Challenges overcome
✓ Strong business case

“We have completely re-focused our business”
Graham Eyles, Managing Director
Apollo Motor Group.

Overview

Apollo Motor Group provides comprehensive auto repair services for all major approved insurance companies across the South Coast of England. Established in 1985 by Graham Eyles and joined by Director David Perkins in 1999, Apollo Motor Group has progressively grown to around 230 employees with turnover in the region of £16 million.

Apollo has been working in collaboration with Aviva for many years, finding new and innovative ways of taking cost out of the process, while simultaneously improving customer service. They thought they had gone as far as they could.

Sustainability wasn’t necessarily at the top of their agenda, until they faced a new cost challenge; how to survive as a business and deliver further cost reduction at a time when input costs were rising by up to 20%! By developing an enlightened approach they were able to turn things around and deliver sustainable cost reduction as well as additional environmental and social benefits.

The Drivers

Necessity is often described as the ‘mother of invention’ and it is certainly the case here. As with many other organisations in recent years, Aviva needed to reduce claims costs in order to remain competitive in an increasingly difficult market. They decided to share the
challenge with its suppliers, by moving to fixed-pricing and empowering Apollo to manage its own resources and risks to best effect. This approach worked reasonably well for a while; Aviva had fixed costs, reduced uncertainty and could pass benefits on to its customers through lower premiums. So far so good...

But then an unexpected external event occurred, as is often the case in business, which led to rapidly rising input costs, by as much as 20% in some cases! The key driver here came from the automotive manufacturers; they shifted the emphasis in their business models in an attempt to maintain income through increasing the price of parts. This was effectively a response to the global economic downturn, which had dramatically reduced the sales of new vehicles.

With such increases in the cost of new parts, and decreasing volumes of repairs, Apollo and other auto repair companies really started to ‘feel the pinch’; with fixed prices, rising costs, jobs under threat, what could they do? It is not an over-statement to say that Apollo had to innovate in order to survive; this was certainly a ‘business critical’ situation.

What they did
With business as usual not an option for anybody, Apollo needed to find a way of meeting the commercial challenge but still maintain cashflow, profitability and retain jobs for its workforce; a seemingly impossible task. They focused on searching for new practices, innovations and technologies, anything that would help them to find a different way to tackle the problem.

A different way of thinking: Apollo needed to find a different way of thinking, to look at their problem in a different way and find a workable solution. In the conventional way of working, the process was always being challenged to try and reduce ‘man hours’ and therefore people costs, as this was viewed as the key driver of performance. But when the price of new parts increased beyond a certain threshold the dynamic shifted, resulting in the amount of new parts used becoming the new key driver rather than labour costs. This insight helped Apollo to realise that they needed a solution that could reduce their dependency on new parts and tackle the common enemy ‘WASTE’.

Integration of new technologies: Apollo had been searching ‘high and low’ for new technologies and they found a potential range of solutions working with Eco Repair Systems, an innovative company that provides ecological repair systems for the automotive industry. They integrated a trio of new technologies into the Apollo operation:

- ‘Flatliner’ system – a piece of equipment that enables a significant increase in the number of panels repairable, saving on average 3.9 parts per job.
- Plastics repair kit – more bumpers repairable.
- Infrared drying - optimised drying of repainted area only enables 75% reduction in energy and 60% reduction in GHGs associated with drying process.

Dale Halford working with the new ‘Flatliner’ System: this enables him to repair a panel that would have previously been thrown away as waste.

It wasn’t simply a case of plugging in new equipment, however; they had to approach things in a very different way to ‘unlock’ the potential these technologies offered. This required a ‘new ethos’ of ‘repair’ rather than ‘replacement’ of damaged parts, representing a complete change to the ‘throw-away’
culture which had emerged in the sector, as well as in general society.

**Focus on waste reduction:** sustainability effectively became the route to further business benefits. It might seem somewhat counterintuitive, but aside from the associated environmental benefits, the reduction of ‘waste’ (in its many forms) helped preserve employment and make those jobs even more fulfilling and rewarding; effectively a case of less money on ‘stuff’ more money on people. Not only impressive, but also refreshing in these difficult times.

**What they achieved**
The new approach has been working for well over a year now and has delivered an impressive range of results, and not just what was initially expected. Apollo has certainly created ‘virtuous circles’ of benefits.

- **Cost:** Sustainable 8% cost reduction enabled by reduction in cycle time, associated lower courtesy car costs, reduction in waste & disposal costs, savings in new parts required and reduced energy costs. Supplier margins were previously very low, but through the new approach were enhanced significantly to more sustainable levels. The net effect for Aviva was that they held prices, with no increase for inflation. This means that the business is able to pass on ‘inflation-busting’ benefits to its customers.

- **Customer:** Significant increase in customer satisfaction, with their customer service index (CSI) up by 6% and the net promoter score up by a massive 84%. Important aspects for the customer include the ability to maintain original integrity of vehicle, quality of repair and faster ‘key to key’ time, down by an average of 3 days for each repair, i.e. they get car back more quickly. Another benefit for Aviva is that the new approach results on less insurance ‘write-offs’.

- **GHGs:** 34% reduction in operational carbon footprint, mainly due to the more efficient and localised drying technology.

Significant savings are also made with embedded carbon, although difficult to measure at this stage, due to lack of visibility, although some estimates suggest the carbon required to manufacture a whole car. e.g. Honda takes around 810 kg CO₂, (about 1/12 of what an average family will use each year); it is difficult to estimate in this particular business, with the wide range of parts and sources.

- **Energy:** Energy costs have gone down from £16.50 to £10.89 per repair, amounting to savings in the region of £74,000 a year.

- **Waste:** By throwing fewer parts away, 42% waste is avoided in the first place. Of the new levels of waste arising a significant proportion can be diverted from landfill. It currently costs £1.50p for each part to be taken away. With the reduction of panels and bumpers thrown away this multiplies up to a total annual saving in the region of £77,000 for waste management costs.

- **Resources:** On average the new approach saves 3.9 parts on each repair job, this scales up to a massive 51,351 parts saved each year, with significant cost savings experienced. And just think of the savings in embedded carbon and energy!

- **People:** As a direct result of the new way of working 30 jobs have been saved. This represents 13% of the total workforce. Apart from the direct benefit to the employees concerned, this also has a significant benefit to the local economy, maintaining spending power and avoiding the social cost of redundancies. For the entire workforce, skills have been enhanced “to an all time high” and job satisfaction increased, as the emphasis has shifted to skilled repairs rather than simply replacing panels.

- **Business case:** Total investment required by Apollo in the region of £67,500. Payback was achieved in less than one month, with no adverse impact on
cashflow; the technologies weren’t paid for until benefits had been proven!

**The bottom line:** Through taking out waste and unnecessary costs in the process Apollo has been able to pass on 8% price reduction to Aviva, while concurrently doubling its margins. Aviva has been able to pass on some of the cost reduction to its own customers in the form of reduced premiums. Jobs preserved and ability to win more business. The losers in this case study will of course be the parts manufacturers, which perhaps raises the philosophical question of how the motor industry may need to change in response to its changing business environment.

**Validating benefits:** all benefits have been measured using supplier management information and performance indicators validated by Aviva.

**Overcoming challenges**

Technology was the easy bit; the main challenge was how to win ‘hearts and minds’ to get the workforce to change how they worked. The last thing anybody wanted was to buy the new kit, which would then sit in the corner of the workshop, gathering dust and nobody using it. Kit was claimed to be the ‘best dent-pulling system in the market’.

**Motivating Organisational Change:** Aviva had been trying to convince repairers for a long time to shift to ‘repair over replace’ but with only limited success. The move to the ‘fixed price’ model gave more of a direct incentive to the repair companies to embrace this philosophy. This model, along with active engagement between Aviva and its suppliers, created a platform for innovation and genuine business improvement.

**Winning Hearts & Minds:** Trevor Ferris, the MD of Eco Repair Systems, agreed to come down to the workshop and engage with the estimators and panel beaters and demonstrate not only how to use the new technologies, but also how the new approach would generate better returns for the business, increased earnings for repair technicians (repair takes longer) and continued value delivered to key work providers.

Trevor has a very ‘visual’ approach when appealing to the workforce to adopt the new approach. Placing a large rubbish bin on the table, he proceed to throw wads of cash into it, to demonstrate where key amounts of the total repair cost were being spent, ultimately showing them how little was actually left for spending on the workforce under the old way and how much they stood to gain by adopting the new approach. Although this sends a powerful message, it wasn’t just a case of appealing to financial motivations; Trevor moved on to demonstrate what the new approach would mean to them in the jobs, how they could develop their skills and deliver really satisfying work of high quality.

Once they were ‘on-side’, he would then go further to show them how to get the most out of the new kit. This involved changing their views on what constituted a repairable panel. Still need to keep watching the skips to make sure repairable panels are not inadvertently discarded!

The new approach creates more work for them, improves their skills (they are not just panel replacers anymore) and enables them to earn more cash. In short, spending less money on parts and waste, with more on rewarding people. To keep the new approach working, it is important for Apollo to keep vigilant and challenge the workforce on what is considered repairable and to keep watching the skips!

**Investment in a difficult market:** Eco Repair Systems agreed that Apollo would not have to pay for new equipment until results were proven and they experienced the difference. That way would experience no adverse impact on cashflow. Eco Repair Systems displayed a great deal of confidence in their product to facilitate this type of deal.
Vested interests: Apollo was very bold in moving forward with its new approach, as it would inevitably create a tension with the automotive manufacturers, with clear and obvious impacts on their ability to make money on spare parts. This situation presents a difficult challenge, which all parties are still working on.

What made it work?
As is often the case, a combination of factors enabled Apollo to change and deliver the sustainable way forward.

Intelligent commercials: a fundamental enabler underpinning the success of this new approach was that Aviva was agile enough to adjust the pricing model and commercial deal, to enable Apollo to make money through increasing labour costs, while experiencing a net reduction in price. If the old rigid model, effectively constraining labour hours, had prevailed Apollo would not have been able to innovate. The intelligent approach by Aviva means that they adjusted the mechanism by which Apollo would make enough money to survive, prosper and reinvest. The net result for Apollo is that turnover goes down, but quality of earnings (profitability) goes up.

Motivation: appealing to people to change. Demonstrating why it is important they have to, the benefits to the company and to the individuals; a genuine win-win.

Collaborative relationships: a high degree of openness, trust and fair commercial arrangements enabled parties to collaborate and deliver solutions and results not otherwise possible. This only comes from parties that work together regularly in a mature way. Collaboration is often talked about, but all parties in this case study were clearly engaged with genuine enthusiasm and respect for each other.

A new ethos: Einstein said that ‘no problem can be solved from the same level of consciousness that created it.’ This is a perfect example of people and businesses finding a new and innovative way of looking for different approaches. In this case changing from the prevailing ‘throw-away’ mindset to one of ‘make do and mend’.

Leveraging investment across the team: Aviva supported Apollo with an appropriate change in the commercial model, Eco Repair Systems had confidence to offer its ‘buy now pay on delivery of benefits’ philosophy to enable Apollo to move forward.

Technology availability: it may take a while to find and integrate, but Apollo scoured the market to find the right solutions.

Leadership: from top to bottom, convincing people to go to a ‘better place’, winning hearts and minds, leading to a change in working practices and behaviours.

What did they learn?
- To place responsibility for cost with the expert (the repairer) and to have the trust in the relationship. Openness enables all parties to be more productive.
- Focussing on innovation & improvements rather than traditional price management for better outcomes.

Where next?
- Apollo would like to look at embedded carbon, but difficult due to the lack of visibility through the manufacturing supply chain. Extensive piece of work though.
- Drive the market: Aviva has been starting to spread this best practice across other suppliers including its own subsidiary Solus. Can use the price benchmarks gained with Apollo to drive greater competitiveness in the sector.
- Explore the potential for ‘green’ parts.
- Work with vehicle manufacturers: deal with their concerns, prove safety and integrity of new approach and try and
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‘continue developing the story with them’.

Looking for inspiration?
There are some useful lessons from this case study that may be applied in other businesses.
• Are there other ways at looking at your challenges; is there a “new ethos” to help unlock value and sustainability benefits?
• Nobody can have all the answers; more often we need to work together to develop workable solutions. Is it possible to share the challenge and work collaboratively with your buyers and suppliers?
• Every business needs to make money to survive, make a reasonable return and reinvest for the future. Improvements and innovations are only possible if commercial arrangements support and enable, rather than inhibit investment.
• Try looking for the waste (in all its forms) in your own business; what can be done to remove it, can you reduce costs or even gain income from waste?
• Is it possible to create ‘virtuous circles’ in your own situation, linking commercial and sustainability impacts and get ‘two for the price of one’? Look for the full range of beneficial impacts that may be possible; cost reduction may be a route to deliver improved resource utilisation, waste reduction and preserve employment.
• Try and quantify the full range of business impacts and prove the beneficial impact on your bottom line.
• Is it possible and desirable to spend more on people and less money on stuff!

Further resources
1. For more information on Apollo see: www.apollomotorgroup.com
2. Aviva www.aviva.com
3. Eco Repair Systems www.ecorepairsystems.co.uk

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